

# NEW VERSION

## COVER NOTE

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from : Secretariat

to : Convention

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Subject : **Contribution from Mr Caspar Einem, member of the Convention, and  
Ms Maria Berger, alternate member of the Convention:  
"Towards a social Union"**

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The Secretary-General of the Convention has received the attached contribution from  
Mr Caspar Einem, member of the Convention, and Ms Maria Berger, alternate member of the  
Convention.

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**Contribution**  
**by**  
**Caspar Einem**  
**Member of the Austrian National Assembly**  
**and**  
**Maria Berger**  
**Representative of the European Parliament**  
**within the Convention**  
**23 August 2002**

**Working towards Social Union**  
**(1) Macro-economic policy and full employment**

**A.** The Convention on the Future of Europe has provided the opportunity to take the European Union one step further, after fifty successful years as a key factor in peace and stability throughout our continent, to become a European Union of the citizens. For this, it will require on the one hand to adopt a clear basis that places European citizens in the centre and must on the other hand develop corresponding policies and strengths that will help to make it evident that the European Union is an effective political body that is capable of finding real solutions to the challenges and problems faced by the people of today in the same way as their nation states.

**B.** In order to gain the trust and respect of the citizens of Europe, the EU will need to begin by ensuring that the most basic interests and concerns of these same citizens, i.e., essentially employment and social security, are suitably dealt within its policies. This initial proposal aims to deal above all with two essential issues: laying the bases for an economic policy aiming to achieve full employment and adapting correspondingly the provisions relating to the independent European Central Bank which is intended to support such a policy.

**C.** This proposal is the first in a series of related proposals. It is based on the Treaty on European Union (TEU) and on the Treaty establishing the European Community (EC Treaty). Nevertheless, it contains suggestions for a new order of the different topics dealt with in view of a new future constitutional structure.

Essentially, the Constitutional Treaty would begin with the basic principles and undertakings, i.e., the values on which the Union is based, as well as the provisions governing citizenship of the Union. At this stage the Charter of Basic Rights would also be included. It would seem logical to provide for further sections on the issues of “Competencies” and “Instruments”. Any further provisions applicable to its actual content would follow the Constitutional Treaty per se. The order of the chapters would indicate the shift of focus towards the citizens of the EU.

**D. Suggested texts referring to the principles and undertakings of the Union**

The first basic provision related to the objectives, tasks, and instruments of the Communities can be found in Article 2 of the EC Treaty.

1. We would propose making the following amendments to Article 2 of the EC Treaty so as to ensure that the objectives are oriented towards the interests of the citizens and not based essentially on the methods used to reach these objectives. Furthermore, the systematic separation of objectives, tasks, and instruments would appear sensible so as to improve the ease of understanding of the text.

The text could read as follows, for example:

## “PRINCIPLES

### 1. ARTICLE 2

*(1) The Community shall have as its objective to guarantee for the citizens of the Union a life of freedom, safety, security, and prosperity free from economic and social need and poverty.*

*(2) For these purposes it shall establish and guarantee an economic, monetary and social union and shall guarantee throughout the Community and through the implementation of the common policies and measures outlined in Articles 3 and 4*

- *a harmonious, balanced, [...] sustainable and ecologically sound development of economic activities,*
- *full employment based on good quality of work and providing a minimum living income,*
- *a high level of social protection and security,*
- *equality between men and women in all areas of life,*
- *smooth relations between the generations,*
- *sustainable and non-inflationary growth,*
- *a high degree of competitiveness and convergence of economic performance,*
- *sustainable environmental development, and*
- *a high level of protection [...] of the environment and*
- *improvement of the quality of the environment,*
- *the raising of the standard of living and quality of life,*
- *economic and social cohesion, and*
- *solidarity among Member States and*
- *solidarity among the citizens of the Union.”*

On the one hand, these changes clearly shift the emphasis of the basic provisions placing the citizens at the fore. However, they also expand on and clarify the individual objectives. The aim is no longer a to achieve “a high level of employment”, rather “full employment”, which furthermore should not be deemed to be solely an issue of quantity, rather should go hand in hand with adequate quality of the work on offer. Quality in this sense does not refer exclusively to the protection of the employee, rather also to ensuring that each job guarantees the employee a minimum living income.

Recent experiences of capitalisation pension systems and the discussions on pension reform above all with the aim of achieving stability would suggest the logic and necessity of a basic provision covering smooth relations between the generations. This provision could be expanded upon in further proposals on the issue of social union.

A further aspect that should not be omitted is that of reinforcing the sustainability of our economy and of environmental development. Sustainable economic development here means not only that growth should be constant, rather also that it should be ecologically sound.

Towards the end of the provisions it should be made clear through an additional statement that the Union is no longer a simple community of states, rather increasing is a community of citizens. Finally, in order to highlight the clout of the provisions, the term “promote”, used thus far in relation to the objectives, is to be replaced by “guarantee”.

2. We would also suggest adapting Article 2 of the TEU accordingly. The first sub-point of Article 2 of the TEU would read as follows:

“Article 2

*The Union shall set itself the following objectives:*

- *to promote economic and social progress, **to achieve full employment** and to achieve balanced and sustainable development..”“.*  
[further as before]

3. Amendments would also be required to Article 3 of the EC Treaty. Paragraph (1) would read as follows:

“(1) For the purposes set out in Article 2, the activities of the Community shall include, as provided in this Treaty and in accordance with the timetable set out therein:

...

...

- i) *a common macro-economic policy with the aim of achieving full employment,*
- ii) *ensuring the high quality of the work on offer and that it provides a minimum living income,*
- iii) *the development of a European employment strategy;*
- j) *a policy in the social sphere based on full employment ensuring the high quality of the work on offer together with a high degree of social protection and security, all of which supported by a European Social Fund;”*

These changes adapt this Article to the new provisions of Article 2 whilst at the same time taking employment policy, which is currently simply co-ordinated, further to create an effective “European employment strategy” supported by a common macro-economic policy aiming to achieve full employment and supported by the ECB. In order to highlight that this employment aim is not based solely on the quantity of work available, the quality of the jobs on offer together with the aim of ensuring that these jobs ensure a minimum living income is also set down in writing here.

4. Article 4(1) of the EC Treaty would read:

“(1) For the purposes set out in Article 2, the activities of the Member States and the Community shall include, as provided in this Treaty and in accordance with the timetable set out therein, the adoption of an economic, **social, and employment** policy, which is based on the definition of common objectives and on close coordination of these policies of the Member States, **a common macro-economic policy with the aim of achieving full employment, institutional dialogue between the social partners at Community level** and on the internal market and conducted in accordance with the principles of an open market economy with free competition, of **social welfare and the absence of discrimination.**”

By adding the above text to Article 4(1) the aim is to set down some of the essential aspects of the European social model. Other such statements shall follow in future proposals. Most importantly, social dialogue, which was thus far outlined in Article 139 and referred only to social policy, is now a basic facet of economic, employment, and social policy. Please see also the proposal for amendments to Article 99(2).

Referring only to the principle of “an open market economy with free competition” does not go far enough. We would therefore suggest adding a further principle to the notion of the open market economy, i.e., that of “social welfare”.

Article 4(2), which deals essentially with monetary policy, would read as follows after the phrase “exchange-rate policy”:

*“the primary objective of both of which shall be **overall economic stability, i.e., growth, full employment** and price stability and, without prejudice to this objective, to support the general economic, **social and employment** policies in the Community, in accordance with the principles of an open market economy with free competition **and of social welfare.**”*

Paragraph 3 would read as follows:

*„(3) These activities of the Member States and the Community shall entail compliance with the following guiding principles: **economic growth, full employment**, stable prices, sound public finances and monetary conditions and a sustainable balance of payments.“*

Articles of principle 2, 3, and 4 would also set down the essential fundamentals of the policy governing the ESCB.

### **E. Suggested texts for Community (Union) Policies**

In this text to be attached to the actual constitutional text itself, and which corresponds to the current Part Three of the EC Treaty, the individual areas of policy (thus far Titles I to XX) would be placed in a different order.

The following are proposed as the new Title I:

**“Title I    Economic and Social Union**

- **Economic Policy**
- **Employment Policy**
- **Social Policy**
- **Monetary Policy**
- **Institutional Provisions**
- **Transitional Provisions”**

That Title containing the most essential tasks of the Union shall be incorporated into the new treaty structure as Title I.

This Title would then contain those provisions governing the common economic, employment, social and monetary policies thus stressing that a new dimension has been added to the Union, i.e., that of economic and social union.

5. Chapter 1 would read:

**“ECONOMIC POLICY”** [as before]

The second sentence of Article 98 would read as follows

*“The Member States and the Community shall act in accordance with*

- the principle of an open market economy with free competition, favouring an efficient allocation of resources **and***
- **the principle of social welfare***

*and in compliance with the principles set out in Article 4.”*

6. Article 99(2) of the EC Treaty would read:

*“(2) **The Commission shall draw up a proposal in cooperation with the social partners which the Council shall take as the basis following consultation with the European Parliament** for the broad guidelines of the economic policies of the Member States and of the Community, and shall report its findings to the European Council.*

*The European Council shall, acting on the basis of the report from the Council, discuss a conclusion on the broad guidelines of the economic policies of the Member States and of the Community.*

*On the basis of this conclusion, the Council shall, acting by a qualified majority **and with the assent of the European Parliament**, adopt a recommendation setting out these broad guidelines. [...]*”

On the one hand, this new wording intends to guarantee the involvement of the European Parliament as the directly elected representatives of the citizens in this essential policy area. On the other hand, it involves the European social partners in the development of the common economic policy at an early stage by further promoting social dialogue at European level. Lastly, the substitution of the term “recommendation” by the term “proposal” helps to strengthen the role played by the Commission.

7. Article 99(3) would read:

*“(3) In order to ensure closer coordination of economic policies and sustained convergence of the economic performances of the Member States, **the Commission** shall [...] monitor economic developments in each of the Member States...” [as before]*

With the aim of clearly separating the executive tasks to be carried out by the Commission and issues of a legislative nature, we would suggest transferring the job of monitoring here to the Commission, which was always responsible for this task in any case, but was required to submit a corresponding report to the Council.

8. The requirement outlined in Article 100(1) for the Council to take a decision unanimously should be replaced by the qualified majority system involving co-decision with the European Parliament.

This co-decision procedure involving the European Parliament should also be written into the second sentence of Paragraph (2). The third sentence could then be removed.

9. The second sub-point of Article 104 (2) (a) would read as follows:

*“- or, alternatively, the excess over the reference value is only exceptional and temporary, i.e., it is **brought back down through the use of automatic stabilising factors**, and the ratio remains close to the reference value;”*

In accordance with the proposals for economic and social union (see below), the ECB would be made responsible for employment, growth and price stability, and finance policy would be responsible for ensuring a stable employment market (automatic stabilising factors) and creating an infrastructure that promotes growth. Finally, pricing policy, in social dialogue with the ECB, would contribute to ensuring the absence of inflationary impulses.

10. The following sentence would be added to Article 104(2) after letter (b):

***“Public investments in infrastructures financed by loans shall not be taken into account for the examination.”***

Explanation under 9.

11. Chapter 2 would read

**“EMPLOYMENT”** [as before]

12. Article 125 would read:

***“The Community shall follow a common macro-economic policy with the aim of achieving full employment in accordance with Article 3(1)(i)(ii) and (iii) of this Treaty. In addition to this policy, the Member States and the Community shall, in accordance with this Chapter, work towards developing a coordinated **European** strategy for employment that would in particular promote a skilled and trained workforce **empowered** to meet the challenges of economic change, with a view to achieving the objectives defined in Article 2 of the Treaty on European Union and in Article 2 of this Treaty.”***

The current text of this Article of Title VIII does not make it clear whether reference is being made to employment policy in terms of labour market policy or in terms of macro-economic policy based on a high level of employment (thus far). This issue would be clarified through the reference to Article 3(1)(i) in both instances.

The second change made to the text aims to make it clear that employees shall be empowered and shall not simply be trained to deal with almost naturally occurring developments resulting from “economic change”.

13. Article 127 would read:

***“The Community shall contribute through its macro-economic policy aiming to achieve full employment in the sense meant by Article 3(1)(i)(ii) and (iii) of this Treaty to a high level of employment by encouraging cooperation between Member States and by supporting and, if necessary, complementing their action.”***

The current paragraph 2 would be removed and replaced by the following text:

***“(2) Following a proposal made by the Commission, the Council shall be entitled, without prejudice to any other procedures outlined in this Treaty, to decide unanimously on appropriate labour market measures in particular in cases of serious problems such as high unemployment or a lack of manpower in specific sectors of the labour market.”***

A high level of employment, or rather full employment, cannot be achieved through labour market policy alone. Employment policy measures such as offering training and reintegration assistance require for their success a corresponding macro-economic policy working towards growth and full employment. It is for this reason that clear reference to Article 3(1)(i) is made both in Article 125 and here.

Paragraph 2 covers the corresponding provisions of Article 100(1), instituting the right of the Council to intervene during severe labour market policy crises, whereby it must act unanimously.

14. Article 128 would be amended as follows:

*“(1) To coincide with the discussions on the report drawn up by the Council proposing the broad guidelines for the economic policy of the Member States in accordance with Article 99(2) of this Treaty the European Council shall each year consider the employment situation in the Community and adopt conclusions thereon, on the basis of a joint annual report by the Council and the Commission.*

*(2) On the basis of the conclusions of the European Council adopted at the same time in accordance with Article 99(2) and this Article, the Council, acting on a proposal from the Commission and with the assent of the European Parliament and after consulting the Economic and Social Committee...” [further as before]*

Complaints have often been made regarding the fact that the broad guidelines for the economic policy of the Member States are not adopted at the same time as the guidelines for employment policy and that the link between their content is one-sided. This new wording should remedy both problems.

15. Chapter 3 would read:  
**“SOCIAL POLICY”**

**Proposals to follow.**

16. Chapter 4 would read:  
**“MONETARY POLICY”** [as before]

17. The definitions of the objectives of the monetary policy of the ESCB would be extended as follows:

Article 105(1) of the EC Treaty would be amended as follows:

*“(1) The primary objective of the ESCB shall be to support the overall economic policy of the Community so as to contribute to the realisation of the objectives laid down in Article 2, to maintain price stability and to contribute to ensuring the stability of the financial system. The ESCB shall act in accordance with the principle of an open market economy with free competition as well as the principle of social welfare and shall promote an efficient, sustainable allocation of resources in compliance with the principles set out in Article 4.”*

The monetary policy of the ESCB is not an end in itself, rather is a step along the road to the much

greater objective of maintaining and improving a just distribution of wealth amongst the citizens of Europe. Guaranteeing price stability can contribute to this aim, but is too little on its own, neglecting other essential and related economic aspects.

It would therefore make sense to place other monetary policy aims on the same level. This is achieved through the reference to the newly worded Article 2. Furthermore, explicit reference is made to the responsibility of the ESCB to guarantee the stability of the financial system in view of the fact that one of the greatest risks to the progress of national economies today, and with that of the individual wealth of their citizens, lies in sudden disturbances on the financial markets which can have serious economic consequences. This responsibility could also lead to measures for managing short-term capital transfers (Tobin Tax).

18. The notion of price stability, i.e., the target inflation, shall be defined by democratically legitimate bodies, here the Finance Ministers within ECOFIN and the EP.

Article 105(6) would read as follows:

*“(6) The Council shall determine the rate of inflation valid in the medium term in relation to the objective of price stability, after consulting the ECB and having received the assent of the European parliament, and may, acting unanimously on a proposal from the Commission and after consulting the ECB and after receiving the assent of the European Parliament, confer upon the ECB specific tasks concerning policies relating to the prudential supervision of credit institutions and other financial institutions with the exception of insurance undertakings.”*

Compare Hickel (1994): Against the dangers of monetary policy abuse of power: autonomy and/or democratisation of the German Bundesbank: a change of direction, special booklet 11a: “Who decides in the classic case of conflict between inflation and unemployment? The Bundesbank recently contested the existence of a conflict of aims, explaining that combating inflation is a political task that must be subordinated to price and employment policy. However, the decision on the conflict of aims within economic policy goes beyond the area of competency of the Bundesbank. It does not have the necessary constitutional legitimacy in this respect.” In other words, a central bank must be entirely independent in terms of the measures it uses rather than simply in terms of its objectives.

The complete independence of the ESCB and the transfer of all monetary policy competencies to the euro system confront the ESCB with the dilemma of being both principal and agent at the same time. In its role as principal it outlines the objectives, whilst in its role as agent it is responsible for meeting these. In order to best achieve the aim of price stability, the ESCB has set itself an inflation target of less than 2% for the medium term. This is a level that thus far has only been seen in times of recession or poor economic years.

Experiences in monetary policy this year and last have shown that supply shocks, such as petrol price crises, render this objective unfeasible. The ECB therefore reached the logical conclusion that this level would have to be exceeded, but that rates should nevertheless not be raised.

Were it down to the political sphere, or more precisely ECOFIN and the EP, to determine the target level of inflation, the ECB could not then be criticised for changing its objectives whenever they cannot be met, thus avoiding problems related to its credibility. Furthermore, the absurd situation of having to explain the absence of rates rises in spite of a weak economy (in order solely to bring the rate of inflation back down below the 2% target level) would also be avoided.

19. Article 109 would be adapted accordingly.

20. Article 111 would be amended as follows:

In Paragraph (1) after the first and second sentences and following the words “in an endeavour”, the following would be added:

*“to reach a consensus consistent with the **objectives of Article 105(1)**...”*

The last sentence of the second paragraph would read:

*“These general orientations **shall be consistent with the aims of Article 105(1)**.”*

21. The ESCB would be required to account for its monetary policy, thus ensuring its democratic legitimacy.

Article 113(3) of the EC Treaty would be amended as follows:

*“(3) The ECB shall address an annual report on the activities of the ESBC and on the monetary policy of both the previous and current year to the European Parliament, the Council and the Commission. The President of the ECB shall furthermore present to the European Parliament following a lapse of two weeks the minutes of the meetings held by the ECB Council to discuss monetary policy decisions such that a relevant general debate may be held on that basis within the competent Committees on the framework for decisions related to monetary policy. The President of the ECB and, at the request of the President of the European Parliament, the remaining Members of the Board of Directors shall submit an oral report every six months to the relevant Committees within the European Parliament in this respect.*

*Should the relevant Committee deem the information and/or explanations provided as to monetary policy in view of the objectives of the ESCB to be insufficient, then the Chair of that Committee shall be entitled to participate in the next meeting of the ECB Council and inform it of the position of the European Parliament. Should the relationship of trust be altered for the reasons outlined above, the Parliament may pass a vote of no confidence against the President of the ECB in accordance with Article 201 of this Treaty. Such votes of no confidence shall serve to relieve the President of the ECB of his or her post with immediate effect. Until such time as a new President is appointed, the Vice-President shall take on this role.”*

Monetary policy is presented today as a complicated science accessible only to a handful of experts and that is certainly too complex to be understood by parliamentarians or other political actors. Furthermore, it is claimed that it works best when it is based only on the achievement of a specific rate of inflation and remains unhampered by trivial ex ante attempts at coordination with fiscal and revenue policy and is left entirely independent (from all obligations to prove accountability?).

In reality the situation is quite different. Monetary policy depends, in the same way as other areas of politics, on the judgements of individuals in terms of a specific economic situation and on their individual view of what reaction is appropriate to what situation. And indeed, it is impossible for politics to function otherwise.

The problem of the present structures within the European Union is that the current understanding of the terms “independent”, i.e., no ex ante coordination, and “accountability”, i.e., the ECB President addresses the European Parliament once every six months, presenting a clichéd overview, render impossible the opportunity for in-depth discussion on the right direction for monetary policy outside the closed circle of the ECB Council. Even the head economists within the Central Banks

are sometimes astounded at the rates decisions taken by the 17 men and one lady who make up the ECB Council.

The danger here is that it is objectively no longer possible to tell whether valid arguments have preceded a rates decision or whether a handful of dominant individuals have pushed the body into a specific decision, or again whether the official Council meeting is simply a formality serving to render official informally agreed decisions.

The political conclusion of the above must be the creation of structures in which monetary policy decision-makers are required to discuss relevant issues in greater depth and on a broader plane and in which the European Parliament has greater opportunity to exercise control, and even impose sanctions in exceptional cases.

22. After Article 114 a new Article 114a would be introduced using the same structure as Article 114 to outline the obligation of the ECB to enter into institutionalised social dialogue with the social partners at European level with the aim of involving them in creating policy oriented towards overall economic stability.
23. It would make sense to introduce a separate new transitional provision similar to Article 116 of the EC Treaty and which would outline from what time the “Economic, Monetary, and Social Union” would come into effect.

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